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**Finance Committee**

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**HB 3233**

**Brief Description:** Extending the extension of local taxes to fund arts, cultural and heritage institutions and programs, tourism promotion, publicly owned sports and entertainment facilities, and other civic amenities.

**Sponsors:** Representatives McIntire, Haler, Kenney, Armstrong, Quall, Darneille and Chase.

**Brief Summary of Bill**

- Provides funding from sales tax, hotel-motel tax, rental car tax, and restaurant tax for arts, cultural and heritage institutions and programs, tourism promotion, publicly owned sports and entertainment facilities, and other civic amenities.

**Hearing Date:**

**Staff:** Rick Peterson (786-7150).

**Background:**

Sales & Use Tax

Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 1.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

Local Hotel-Motel Tax

A hotel-motel tax is a special sales tax on lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities. Cities and counties are authorized to levy a basic, or "state-shared," hotel-motel tax of up to 2 percent. These taxes are credited against the state sales tax on the furnishing of lodging. Other hotel-motel taxes are imposed in addition to ordinary state and local sales taxes and are added to the amount paid by the customer. The latter type are often referred to as "special" hotel-motel taxes.

Since 1975, a county basic hotel-motel tax must allow a credit for the amount of any tax levied by the cities within the county, thus precluding both the city and county tax from applying to the same lodging transaction. However, if a county has pledged the tax receipts to payment of principal and interest of revenue or general obligation bonds issued by a city or county prior to

June 26, 1975, the county may continue levying the tax despite a city also levying the tax. This has allowed the cities of Bellevue and Yakima to levy the tax in addition to King and Yakima counties. For these cities, both the city tax and the county tax are credited against the state sales tax. This is known as the "double dip." Except for the city of Bellevue, cities in King County cannot impose a basic hotel-motel tax until January 1, 2021.

Beginning in 1987, the hotel-motel tax in King County not only applied to servicing the debt on the KingDome, but a portion of the tax revenues above \$5.3 million per year was dedicated to arts and heritage programs in King County. Currently, 70 percent of the excess revenue is dedicated to the arts and heritage programs; however, 40 percent of the arts revenue is for the arts endowment fund, of which the principal cannot be touched. The remaining 30 percent of the revenue in excess of \$5.3 million is dedicated first to retiring the KingDome debt, then to acquisition of open space lands, youth sports activities, and tourism promotion. This is to continue until 2012 until the KingDome debt is retired, then the full portion of the local hotel-motel tax in King County is dedicated to retiring the debt on Qwest Field. Beginning in 2012, the only known source of funding for the arts and heritage programs in King County is the earnings off the arts endowment.

#### Rental Car Tax

The rental of a passenger vehicle from a rental car company to customers, without drivers, for a period that does not exceed 30 consecutive days is subject the state and local retail sales tax. In addition, the state imposes a 5.9 percent rental car tax. The receipts of the state rental car tax are deposited into the multimodal transportation account. A county is also authorized to impose an additional car rental tax of 1 percent. After the state's administrative costs are deducted, the local receipts are distributed to the appropriate counties and may only be used for the construction or operation of public sports stadiums, or for youth or amateur sports activities or facilities. There are currently four counties (Franklin, King, Pierce and Spokane) levying this 1 percent tax.

King County imposes an additional 2 percent rental car tax to finance the construction of Safeco Field. Also, the Regional Transit Authority, which is comprised of the metropolitan areas of King, Pierce and Snohomish Counties, levies a tax of 0.8 percent on the rental of automobiles.

#### Local Admissions Taxes

Cities, towns, counties, and public facility districts are authorized to levy a tax on the price paid for admission to any place or event. This includes season tickets, cover charges, and charges for the use of recreational facilities. A charge for parking may be subject to an admissions tax if the charge is related to the number of passengers. Also, charges for food and beverages may be included in the price subject to tax if entertainment is provided.

The tax on admissions is limited to 5 percent of the admission charge. However, King County may levy a 10 percent admissions tax for events at both Safeco Field and Qwest Field, including the adjacent exhibition center. In general, the receipts may be used for the general purpose of the jurisdiction, except the King County admissions taxes at Safeco Field and Qwest Field are dedicated to principal and interest payments for the bonds on the facilities.

#### KeyArena

Built originally as the Coliseum at the 1962 World's Fair, the multi-use KeyArena has been an important part of the Seattle Center for more than 40 years. The KeyArena opened in its current form in 1995 and has entertained over 10 million guests, hosting concerts, family shows,

community events, hockey, and basketball. The principal tenant of the KeyArena is the Basketball Club of Seattle (BCS). The Seattle SuperSonics, a National Basketball Association (NBA) team, and the Seattle Storm, a women's National Basketball Association (WNBA) team, account for approximately 45 percent of the "occupied" dates at the KeyArena. Although the KeyArena is owned by the City of Seattle, the Seattle Center is responsible for the financial management of the venue.

#### 4Culture

Established in January 2003, 4Culture is King County's cultural services agency. It continues the work of the King County Arts Commission, Public Art Commission, and the heritage programs of the Landmarks Commission. 4Culture is a tax-exempt public corporation, with a 15 member Board of Directors, who are nominated by the King County Executive and confirmed by the Metropolitan King County Council.

4 Culture receives a portion of the hotel-motel tax revenues to provide funding to support the visual and performing arts, public art, heritage programs and historic preservation. Throughout King County, annual funding supports the activities of more than 200 arts and heritage organizations, hundreds of artists and heritage specialists, capital construction and fixed asset purchases, project support, and cultural education in public schools.

#### Safeco Field

In 1995, state and local financing was authorized for the construction of a new baseball stadium in King County. It is currently known as Safeco Field.

#### State Contribution

- **Retail Sales & Use Tax:** An additional local retail sales and use tax at a rate of .017 percent was authorized. This local sales and use tax is credited against the state sales and use tax (6.5 percent) so the consumers do not experience a tax increase. The local option sales and use tax and the credit against the state sales and use tax expire when the bonds are retired, but no later than 20 years after the bonds are issued. The tax may not be imposed after January 1, 2016.
- **Lottery:** Beginning in 1996, \$3 million of the lottery revenue was dedicated to baseball stadium bond retirement. Each year that amount increased by 4 percent. In addition, the State Lottery Commission was directed to conduct two to four games with sports themes per year.
- **License Plates:** Special stadium license plates were authorized, with the revenue being dedicated to baseball stadium bond retirement. The special license plate fee is \$30.

#### Local Funding

- **Restaurant Tax:** King County was authorized to impose an additional sales and use tax of 0.5 percent on food and beverage sales at restaurants, taverns and bars. Food and beverage sales at grocery stores, mini-markets, and convenience stores were not included. The tax may be imposed when the bonds are retired or by December 1, 2016 (20 years after the bonds were issued).
- **Car Rentals Tax:** King County was authorized to impose an additional sales and use tax on car rentals at a rate not to exceed 2 percent.
- **Admissions tax:** A 5 percent tax on admission charges was authorized for the purpose of baseball stadium bond retirement; however, excess revenues may be used to pay

unanticipated capital costs excluding any cost overruns on initial construction. An additional 5 percent tax may be imposed for the sole purpose of baseball bond retirement.

- The Mariners were required to contribute at least \$45 million to the construction cost.
- A leasehold excise tax exemption was granted for public or entertainment areas of the baseball stadium.

In 1997, King County issued \$336 million of limited tax general obligation funds to provide the funding for Safeco Field. In 2002, King County issued new tax general obligation bonds at a lower interest rate that will save approximately \$6.1 million in debt service and will allow King County to pay off the Safeco Field bonds by 2014.

#### Qwest Field & Exhibition Center

In 1997, state and local financing was authorized for a new football stadium and exhibition center in King County. It is currently known as Qwest Stadium.

#### State Contribution

- Retail Sales & Use Tax: King County was authorized to impose a sales and use tax at a rate of 0.016 percent. This tax is credited against the state sales and use tax. The revenues will be used to retire the bonds issued for the stadium and convention center construction. The tax and credit expire when the bonds are retired, but no later than 23 years after the tax is first collected. In 2004, this local sales and use tax generated \$6.2 million in revenue.
- Retail Sales Tax Deferral: Retail sales tax was deferred on the construction of the facility. This includes labor and services, material and supplies, and rental of equipment. The sales tax must be repaid over a 10 year period and the repayments will be deposited into the stadium and exhibition center account.
- State sales and use tax exemption was provided for vehicle parking fees charged at the stadium and exhibition center.
- Lottery: Since 1998, \$6 million in lottery revenues is distributed to the stadium and exhibition center account each year. The amount of the distribution increases annually at 4 percent. The distributions expire when the bonds are retired, or 2020 whichever is earlier. The Lottery Commission was authorized to conduct new games. The operators of Qwest Field must promote the lottery with in-kind advertising, sponsorship or prize promotions valued at \$1 million annually.
- Leasehold excise tax exemptions were provided for public or entertainment areas in the facility.
- \$300 million in state issued general obligation bonds were authorized (exempt for state's statutory 7 percent debt limit).

#### Local funding

- Admissions & Vehicle tax: A 10 percent tax was authorized on admission charges to events in the stadium and exhibition center. A 10 percent tax on vehicle parking at the new facility was also authorized. Revenues from these taxes go first to retire the bonds, then into an account for future repairs and improvements.
- Hotel-Motel Tax: King County's share of the basic 2 percent hotel-motel tax is extended to 2020. The revenues may be used for KingDome repairs and debt until 2015, then for bond payments for the new stadium and exhibition center until 2020.
- Car Rental Tax: Seventy-five percent of the county-imposed 1 percent car rental tax must be used for KingDome repairs and debt.

- The Seattle Seahawks had to contribute at least \$100 million to the construction.

The total public share of construction costs of the stadium and exhibition center is limited to \$300 million.

### **Summary of Bill:**

#### Local Hotel-Motel Tax

Except for the city of Bellevue, cities in King County are permanently prohibited from imposing the basic hotel-motel tax. After January 1, 2021, the King County hotel-motel tax must be used 50 percent for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts in all parts of the county and 50 percent to pay the costs of constructing or improving civic amenities or tourism promotion.

For the arts endowment account funded with this hotel-motel tax, from January 1, 2001, through December 31, 2012, the principal of the account must not be distributed but the earnings from investments of balances in the account may be used for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts in all parts of the county. During the period January 1, 2013, through December 31, 2020, principal and earnings from investments of balances may be distributed to art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts in all parts of the county.

#### Other Local Taxes

The 0.017 percent sales tax in King County, the 0.5 percent sales tax on restaurant sales of food and beverages, and the 2 percent sales and use tax on car rentals for the baseball stadium are made permanent. After the Safeco Field bonds are paid off, the 0.017 percent sales tax and the tax must be used for tourism promotion and constructing or improving civic amenities. After the Safeco Field bonds are retired, 25 percent of the proceeds of the King County rental car tax must be used to fund youth or amateur sports activities or facilities. The remainder must be used to fund arts, cultural, and heritage activities, and to pay costs of constructing or improving civic amenities.

#### Funding for Civic Amenities

Specific provisions, including specifications of the dollar amount of funding, are provided for the use of revenues under the bill for construction, improvement, debt financing, and refinancing of civic amenities. Civic amenities include any sports, cultural, or other civic amenity that promotes tourism or economic development including, without limitation, a sports stadium, a multipurpose public arena, and a stadium and exhibition center.

In each calendar year 2013 through 2020, \$4.5 million of the tax must be used for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts in all parts of the county, of which \$500,000 must be used for increasing access opportunities and participation in arts and heritage programs by under-served minority communities. Any remaining amounts collected each year must be used for tourism promotion and to pay the costs of constructing or improving civic amenities, including constructing or improving a multipurpose public arena for a national basketball association franchise and improving the baseball stadium.

King County may pledge these revenues to pay bonds, notes, or other obligations issued by the county or other municipal corporation or public corporation.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.